

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Hatton Township	County Clare
Fiscal Year End 06/30/2006	Opinion Date 09/01/2006	Date Audit Report Submitted to State 10-27-2006	

We affirm that:

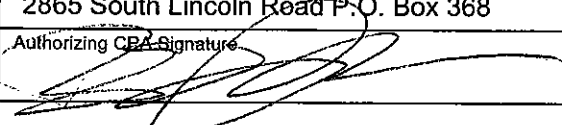
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO Check each applicable box below. (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
  - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
  - ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
  - ☒ ☐ The local unit has adopted a budget for all required funds.
  - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
  - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
  - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
  - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
  - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
  - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
  - ☐ ☒ The local unit is free of repeated comments from previous years.
  - ☐ ☒ The audit opinion is UNQUALIFIED.
  - ☐ ☒ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP). **CASH BASIS**
  - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
  - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Page Olson & Company P.C., CPA's		Telephone Number 989-773-5494	
Street Address 2865 South Lincoln Road P.O. Box 368		City Mt. Pleasant	State MI
		Zip 48804 - 0386	
Authorizing CPA Signature 		Printed Name Bobbie Jo Marr	License Number 1101026172

HATTON TOWNSHIP, CLARE COUNTY

STATE OF MICHIGAN

AUDITED FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

**HATTON TOWNSHIP, CLARE COUNTY  
YEAR ENDED JUNE 30, 2006**

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**HATTON TOWNSHIP, CLARE COUNTY  
TOWNSHIP OFFICIALS  
YEAR ENDED JUNE 30, 2006**

SUPERVISOR

William Hileman

CLERK

Janet Trietch

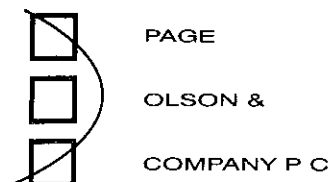
TREASURER

Patricia Shull

TRUSTEES

David Farrell

Bill Guiette



## INDEPENDENT AUDITORS' REPORT

September 1, 2006

Township Board  
Township of Hatton  
Clare County, Michigan

We have audited the accompanying statements of assets and liabilities arising from cash transactions of the Township of Hatton as of June 30, 2006, and the related statement of revenue collected and expenditures paid for the year then ended, as listed in the Table of Contents. These financial statements are the responsibility of the management of the Township of Hatton. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Township of Hatton has a population of less than 4,000 people and is therefore required by Act 46, Public Acts of 1996 of the State of Michigan, to have an independent audit only biennially. The preceding year has thus not been audited; however, we have performed various tests of the opening balances.

As described in the Summary of Significant Accounting Policies, Note 1-C, the Township prepared its financial statements on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.

As described in Note 1-C, the Township prepared these financial statements using the minimum accounting practices prescribed by the Michigan Department of Treasury to demonstrate compliance with the State's accounting and budget laws, which practices differ from accounting principles generally accepted in the United States of America. The financial statements referred to above do not include the Management Discussion and Analysis or the Government Wide statement presentation that should be included in order to conform with accounting principles generally accepted in the United States of America.

Township Board  
Township of Hatton  
Clare County, Michigan

In our opinion, because of the omission of the government-wide financial statements and the Managements Discussion and Analysis, the financial statements referred to above do not present fairly, the assets, liabilities, and cash basis fund balance of the individual funds of the Township of Hatton as of June 30, 2006, arising from cash transactions and its revenue collected, expenditures paid and changes in cash basis fund balance for the year ended, in conformity with the basis of accounting described in Note 1-C.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Township's basic financial statements. The Other Supplemental Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The General Fixed Assets Schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Our report of comments and recommendations is included herein and forms a part of this report.

*Page, Allen & Company*

**HATTON TOWNSHIP, CLARE COUNTY**  
**STATEMENT OF ASSETS AND LIABILITIES ARISING**  
**FROM CASH TRANSACTIONS - GOVERNMENTAL FUNDS**  
**JUNE 30, 2006**

Statement I

	General Fund	Cemetery Perpetual Care Fund	Total
<b>Assets</b>			
Cash and Cash Equivalents	\$ 58,988	\$ 801	\$ 59,789
Certificates of Deposit	<u>291,423</u>	<u>2,238</u>	<u>293,661</u>
<b>Total Assets</b>	<u><b>\$ 350,411</b></u>	<u><b>\$ 3,039</b></u>	<u><b>\$ 353,450</b></u>
<b>Cash Basis Fund Balances</b>			
Reserved - Non-expendable	\$ -	\$ 2,981	\$ 2,981
Unreserved - Undesignated	<u>350,411</u>	<u>58</u>	<u>350,469</u>
<b>Total Cash Basis Fund Balance</b>	<u><b>\$ 350,411</b></u>	<u><b>\$ 3,039</b></u>	<u><b>\$ 353,450</b></u>

The accompanying notes are an integral part of the financial statements.

**HATTON TOWNSHIP, CLARE COUNTY**  
**STATEMENT OF REVENUE COLLECTED, EXPENDITURES**  
**PAID, AND CHANGES IN CASH BASIS FUND BALANCE - GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2006**

Statement II

	General Fund	Cemetery Perpetual Care Fund	Total
<b>Revenue</b>			
Property Taxes	\$ 53,739	\$ -	\$ 53,739
Licenses and Permits	1,530	-	1,530
Intergovernmental Revenue	78,913	-	78,913
Interest and Dividend Earnings	5,880	58	5,938
Land Division Act	400	-	400
Charges for Services	963	-	963
Cable Service Fees	908	-	908
Cemetery Fees	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Total Revenue</b>	<b>142,333</b>	<b>58</b>	<b>142,391</b>
<b>Expenditures</b>			
<b>GENERAL GOVERNMENT</b>			
Township Board	6,343	-	6,343
Supervisor	6,262	-	6,262
Assessor	9,217	-	9,217
Elections	9,357	-	9,357
Accounting and Auditing	145	-	145
Attorney	614	-	614
Clerk	9,159	-	9,159
Deputy Clerk	666	-	666
Voters Registration	76	-	76
Board of Review	935	-	935
Treasurer	10,342	-	10,342
Township Hall and Grounds	2,115	-	2,115
Cemetery	1,679	-	1,679
	<hr/>	<hr/>	<hr/>
<b>Total General Government</b>	<b>56,910</b>	<b>-</b>	<b>56,910</b>
<b>PUBLIC SAFETY</b>			
Fire Protection	14,903	-	14,903
Zoning Inspector	323	-	323
Land Division Act	200	-	200
	<hr/>	<hr/>	<hr/>
<b>Total Public Safety</b>	<b>15,426</b>	<b>-</b>	<b>15,426</b>
<b>PUBLIC WORKS</b>			
Highways and Streets	44,500	-	44,500
<b>CULTURE AND RECREATION</b>			
Library			
Contracted Services	4,384	-	4,384
<b>PLANNING</b>			
Planning Board/Commission	2,679	-	2,679

The accompanying notes are an integral part of the financial statements.



**HATTON TOWNSHIP, CLARE COUNTY**  
**STATEMENT OF REVENUE COLLECTED, EXPENDITURES**  
**PAID, AND CHANGES IN CASH BASIS FUND BALANCE - GOVERNMENTAL FUNDS**  
**YEAR ENDED JUNE 30, 2006**

Statement II

	General Fund	Cemetery Perpetual Care Fund	Total
<b>Expenditures (Continued)</b>			
OTHER FUNCTIONS			
Fringe Benefits	\$ 750	\$ -	\$ 750
Insurance Not Charged of Specific Activities	<u>3,478</u>	<u>-</u>	<u>3,478</u>
Total Other Functions	<u>4,228</u>	<u>-</u>	<u>4,228</u>
<b>Total Expenditures</b>	<b>128,127</b>	<b>-</b>	<b>128,127</b>
 <b>Net Change in Cash Basis Fund Balance</b>	 <b>14,206</b>	 <b>58</b>	 <b>14,264</b>
<b>Cash Basis Fund Balance - July 1</b>	<u><b>336,205</b></u>	<u><b>2,981</b></u>	<u><b>339,186</b></u>
<b>Cash Basis Fund Balance - June 30</b>	<u><b>\$ 350,411</b></u>	<u><b>\$ 3,039</b></u>	<u><b>\$ 353,450</b></u>

The accompanying notes are an integral part of the financial statements.

**HATTON TOWNSHIP, CLARE COUNTY**  
**STATEMENT OF CASH BASIS FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**JUNE 30, 2006**

Statement III

**Assets**

Cash and cash equivalents	\$ <u>20</u>
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**Liabilities**

Undistributed Taxes	\$ <u>20</u>
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**HATTON TOWNSHIP, CLARE COUNTY**  
**STATEMENT OF CHANGES IN CASH BASIS FIDUCIARY NET ASSETS**  
**FIDUCIARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2006**

Statement IV

**ADDITIONS**

Collections:

Property Taxes	\$ 574,619
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Investment Income:

Interest	<u>56</u>
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<b>Total Additions</b>	<b>574,675</b>
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**DEDUCTIONS**

Disbursements:

Distributed Taxes	573,920
Refunds	<u>745</u>

<b>Total Deductions</b>	<b>574,665</b>
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Change in Cash Basis Net Assets	10
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Cash Basis Net Assets - July 1	<u>10</u>
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Cash Basis Net Assets - June 30	<u>\$ 20</u>
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The accompanying notes are an integral part of the financial statements.

**HATTON TOWNSHIP, CLARE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Hatton Township is a general law Michigan township with a population of less than 4,000 people. The Township is governed by a five member board of officials elected by the Township voters.

**A. FINANCIAL REPORTING ENTITY**

In evaluating how to define the government, for financial reporting purposes, management has considered all potential agencies and organizations. The decision to include a potential agency or organization in the reporting entity was made by applying the criteria set forth by the Governmental Accounting Standards Board (GASB) Statement 14. Generally, component units are legally separate organizations for which the elected officials of the Township are financially accountable. Financial accountability is determined by the Township's ability to impose its will on the component unit, as well as the unit's significance regarding operational and financial relationship with the Township. Based upon the application of this criteria there were no other units to be included in the financial statements.

**B. FUND ACCOUNTING**

The accounts of the Township are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund balance, revenue, and expenditures as appropriate. The various funds of the Township are as follows:

**GENERAL FUND**

The General Fund is the general operating fund of the Township. It is used to account for all financial resources except those required to be accounted for in another fund.

**PERMANENT FUND**

*Cemetery Perpetual Care Fund:*

The Cemetery Perpetual Care Fund is used to account for resources that are legally restricted to the extent that only earnings, and not principal, may be used for purposes that support the cemetery. At June 30, 2004 the Township of Hatton restricted all funds designated in the Cemetery Perpetual Care Fund for the purpose of establishing the principal in the fund to generate income. Going forward, it is the Township's intention that all future lot sales and investment income generated from the principal in this fund be used for the maintenance and upkeep of the cemetery.

**AGENCY FUND**

*Current Property Tax Fund:*

The Current Property Tax Collections Fund is used to account for assets held by the Township as an agent for individuals, other governments, and/or other funds. This fund is custodial in nature and does not involve measurement of the results of operations.

**HATTON TOWNSHIP, CLARE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**C. BASIS OF ACCOUNTING AND PRESENTATION**

The accounting books and records of the Township of Hatton are maintained on a cash basis of accounting during the year and the financial statements have been prepared directly from these books and records. The financial statements do not, therefore, give effect to accounts receivable, accounts payable, and accrued items. Additionally, it does not give effect to the recording of capital assets or related depreciation or accumulated depreciation.

Significant non-cash transactions, however, are reported in the financial statements when their omission would cause the statements to be misleading. In the event of such transactions, a revenue and related expenditure is recognized at amounts equal to the fair value of the non-cash transaction.

Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements -- and Management's Discussion and Analysis -- for State and Local Governments sets forth the required financial reporting formats for local governments in accordance with generally accepted accounting principles. The Local Audit and Finance Division of the Michigan Department of Treasury responsible for overseeing local unit compliance has determined that omission of the Management's Discussion and Analysis, the Government-Wide Statements and/or Infrastructure Reporting will not result in any sanctions or remediation, as such the Township has elected to omit these sections of the GASB 34 reporting format.

**D. PROPERTY TAXES**

Hatton Township levies a millage of 0.8018, a fire millage of 0.9632 plus a 1% administration fee for general operations. The Township property tax is levied on December 1. Taxes are payable on a current basis from December 1 to February 28, at which point they become delinquent.

Receipts of current and delinquent property taxes are recorded as revenue in the year in which received. Clare County, the county in which the Township of Hatton is located, has a delinquent tax revolving fund whereby the County pays the Township for its delinquent real property taxes. It then becomes the County's responsibility to collect these delinquent taxes from the various taxpayers.

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

Budgetary Information - Annual budgets are adopted on a basis consistent with the basis of accounting utilized by the Township and state law for the general fund. All annual appropriations lapse at fiscal year end.

**HATTON TOWNSHIP, CLARE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY** (CONTINUED)

The budget document presents information at the line item level. The legal level of budgetary control adopted by the board (i.e. the level at which expenditures may not legally exceed appropriations) is the function level for the general fund. State law requires the Township to have its budget in place by July 1. Expenditures in excess of amounts budgeted is a violation of Michigan Law. State law permits Townships to amend its budgets during the year. The Township amended its budget at various times during the year.

Michigan Public Act 621 of 1978 provides that a local unit shall not incur expenditures in excess of the amount appropriated based on the level of control exercised over the adopted budget. Budgets are adopted on an activity level for the General Fund. Disclosure of all unfavorable appropriation variances based on the level of control exercised over the adopted budget is as follows:

	<u>Appropriation</u>	<u>Expenditures</u>	<u>Excess</u>
Election	\$ 3,910	\$ 9,357	\$ 5,447

The excess was due to the recognition of a non-cash donation received by the township from the state of Michigan that required recognition of both a revenue and expenditure that was not amended for in the budget.

**NOTE 3 - CASH AND INVESTMENTS**

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations.

Investments can also be made in bonds, securities and other obligations of the United States, or an agency or instrumentality of the United States; repurchase agreements consisting of bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States; bankers' acceptances of United States banks, obligations of this State or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; commercial paper rated within the two highest classifications by not less than two standard rating services which mature not more than 270 days after the date of purchase; mutual funds registered under the investment company act of 1940, with the authority to purchase only investment by a public corporation; obligations described above if purchased through an inter-local agreement under the urban cooperations act of 1967, PA 7, MCL 124.501 to 124.512; investment pools organized under the surplus funds investment pool act, 1982 PA 367, 129.111 to 129.118, and the investments pools organized under the local government investment pool act, 1985 PA 121, MCL 129.141 to 129.150.

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. The Township's deposits are in accordance with statutory authority.

The Township of Hatton's cash and investments during the year consisted of cash in checking accounts and certificates of deposit. This is in accordance with statutory authority and within local unit authorization.

**HATTON TOWNSHIP, CLARE COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**YEAR ENDED JUNE 30, 2006**

**NOTE 3 - CASH AND INVESTMENTS (CONTINUED)**

Carrying Amount

At year end, the carrying amount of cash and investments held by the Township of Hatton was

Deposits with financial institutions:

Cash in Checking	\$ 59,008
Cash in Savings	801
Certificates of Deposit	<u>293,661</u>
	<u>\$ 353,470</u>

On June 30, 2006 the carrying amount of deposits with financial institutions was \$353,470 of which \$322,047 was covered by the Federal Deposit Insurance Corporation (FDIC) and \$31,423 was uninsured and uncollateralized. Actual deposits with financial institutions were \$384,002 of which \$352,012 was covered by the FDIC and \$31,993 was uninsured and uncollateralized.

Due to varying cash flows the Township's deposits with financial institutions were higher during the year than at year end. Therefore, there may have been more deposits that were uninsured and uncollateralized at points during the year.

**NOTE 4 - SIGNIFICANT NON-CASH TRANSACTIONS**

During the year ended June 30, 2006, Hatton Township received voting equipment valued at \$9,100 from the State of Michigan. The non-cash transaction was recognized as intergovernmental revenue and as capital outlay in the General Fund elections activity at the stated fair market value.

**REQUIRED SUPPLEMENTAL INFORMATION**

HATTON TOWNSHIP, CLARE COUNTY  
REQUIRED SUPPLEMENTAL INFORMATION  
CASH BASIS BUDGETARY COMPARISON STATEMENT - GENERAL FUND  
YEAR ENDED JUNE 30, 2006

Schedule 1

	Original Budget	Final Amended Budget	Actual
<b>Revenue</b>			
Property Taxes	\$ 37,775	\$ 37,775	\$ 53,739
Licenses and Permits	500	500	1,530
Intergovernmental Revenue	60,000	60,000	78,913
Interest and Dividend Earnings	3,050	3,050	5,880
Land Division Act	100	100	400
Charges for Services	-	-	963
Cable Service Fees	900	900	908
Cemetery Fees	-	-	-
	<hr/>	<hr/>	<hr/>
<b>Total Revenue</b>	<b>102,325</b>	<b>102,325</b>	<b>142,333</b>
<b>Expenditures</b>			
<b>GENERAL GOVERNMENT</b>			
Township Board	5,506	8,486	6,343
Supervisor	6,972	6,972	6,262
Assessor	12,700	12,700	9,217
Elections	3,910	3,910	9,357
Accounting and Auditing	2,900	2,900	145
Attorney	1,775	2,090	614
Clerk	11,127	11,127	9,159
Deputy Clerk	1,400	1,400	666
Voters Registration	560	560	76
Board of Review	1,552	1,552	935
Treasurer	11,192	11,392	10,342
Deputy Treasurer	200	200	-
Township Hall and Grounds	28,262	28,262	2,115
Cemetery	3,262	3,262	1,679
	<hr/>	<hr/>	<hr/>
<b>Total General Government</b>	<b>91,318</b>	<b>94,813</b>	<b>56,910</b>
<b>PUBLIC SAFETY</b>			
Fire Protection	17,000	23,846	14,903
Zoning Inspector	1,108	1,108	323
Blight Enforcement	797	797	-
Sign Ordinance	819	819	-
Land Division Act	200	200	200
	<hr/>	<hr/>	<hr/>
<b>Total Public Safety</b>	<b>19,924</b>	<b>26,770</b>	<b>15,426</b>
<b>PUBLIC WORKS</b>			
Highways and Streets	25,000	44,500	44,500
<b>CULTURE AND RECREATION</b>			
Library			
Contracted Services	4,800	4,800	4,384



HATTON TOWNSHIP, CLARE COUNTY  
REQUIRED SUPPLEMENTAL INFORMATION  
CASH BASIS BUDGETARY COMPARISON STATEMENT - GENERAL FUND  
YEAR ENDED JUNE 30, 2006

Schedule 1

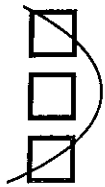
	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>
<b>Expenditures (Continued)</b>			
PLANNING			
Planning Board/Commission/Appeals	\$ 4,699	\$ 5,008	\$ 2,679
OTHER FUNCTIONS			
Insurance Not Charged of Specific Activities	<u>6,000</u>	<u>6,000</u>	<u>4,228</u>
<b>Total Expenditures</b>	<b>151,741</b>	<b>181,891</b>	<b>128,127</b>
 <b>Net Change in Cash Basis Fund Balance</b>	 <b>(49,416)</b>	 <b>(79,566)</b>	 <b>14,206</b>
 <b>Cash Basis Fund Balance - July 1</b>	 <u><b>336,205</b></u>	 <u><b>336,205</b></u>	 <u><b>336,205</b></u>
 <b>Cash Basis Fund Balance - June 30</b>	 <u><b>\$ 286,789</b></u>	 <u><b>\$ 256,639</b></u>	 <u><b>\$ 350,411</b></u>

**OTHER SUPPLEMENTAL INFORMATION**

**HATTON TOWNSHIP, CLARE COUNTY  
OTHER SUPPLEMENTAL INFORMATION  
CASH BASIS GENERAL FIXED ASSETS  
YEAR ENDED JUNE 30, 2006**

Schedule 2

	Cost or Estimated Value at 7/1/05	Additions	Deletions	Cost or Estimated Value at 6/30/06
<u>Land</u>				
Township Grounds - Land				
Improvements	\$ 130	\$ -	\$ -	\$ 130
Cemetery - Land Improvements and Capital Outlay	<u>1,940</u>	<u>-</u>	<u>-</u>	<u>1,940</u>
Total Land	2,070	-	-	2,070
<u>Buildings</u>				
Township Hall and Buildings (Estimated Value)	15,000	-	-	15,000
Building Additions and Improvements	7,049	-	-	7,049
Storage Building	<u>254</u>	<u>-</u>	<u>-</u>	<u>254</u>
Total Buildings	22,303	-	-	22,303
<u>Equipment</u>				
Adding Machines	40	-	-	40
File Cabinets	1,699	-	-	1,699
Ballot Boxes	30	-	-	30
Eight Chairs	100	-	-	100
Copy Machine and Stand	400	-	-	400
Furnace	150	-	-	150
Folding Tables	80	-	-	80
Eighteen Stackable Chairs	300	-	-	300
Coat Rack	15	-	-	15
Floor Fans	15	-	-	15
Floor Mats	20	-	-	20
Grease Bulletin Board	30	-	-	30
Phone	20	-	-	20
Safe	40	-	-	40
Optical Scan Election Equipment 2005	-	1,800	-	1,800
Auto Mark HAVA Election Equipment 6/2006	-	7,000	-	7,000
Auto Mark Table 6/2006	-	300	-	300
Voting Devices	400	-	-	400
Total Equipment	<u>3,339</u>	<u>9,100</u>	<u>-</u>	<u>12,439</u>
Total General Fixed Assets	<u>\$ 27,712</u>	<u>\$ 9,100</u>	<u>\$ -</u>	<u>\$ 36,812</u>



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## AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

September 1, 2006

Township Board  
Township of Hatton  
Clare County, Michigan

We have recently completed our audit of the financial statements of the Township of Hatton for the year ended June 30, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of Hatton in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help to assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the representations of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than with those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

Township Board  
Township of Hatton  
Clare County, Michigan

An independent auditor's objective of an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at a reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or irregularities. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

Auditing standards call for us to inform you regarding the initial selection of, and changes in, significant accounting policies or their application. In addition, we are expected to inform you about the methods used to account for significant unusual transactions and the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

The significant accounting policies are described in Note 1 to the financial statements. Other information related to implementation of GASB 34 is discussed further in the other communications section.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

### **COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE/ EFFICIENCY**

In planning and performing our audit of the financial statements of Hatton Township, for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

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**COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE/  
EFFICIENCY (CONTINUED)**

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

**Reportable Conditions (Material Weaknesses)**

Property Tax Disbursements (Repeated comment with modification)

Public Act 211, of 1979 mandates that units with a Taxable Value greater than \$15,000,000 must remit to the Schools and the County total taxes collected through the 1st and the 15th day of each month within ten business days after the 1st and 15th day of each month. This applies to the months of December, January, and February. In addition the treasurer must remit at least 90% of the total amount of School and County collections on hand at February 28 (29) within ten business days after the end of February. It appears that disbursement are made timely through out the year. However, the amounts collected on February 28, and March 2, were not disbursed until March 22, and March 27. This is 20 days or more from the collection date which does not meet the 10 business day rule mentioned above.

Property Tax Receipts (Repeated comment with modification)

During Property Tax Receipt testing it was noted that 1 deposit was made several days after the taxes were collected. Deposits should be made at least weekly and more frequently when the amounts collected are material in amount.

**Other Reportable Conditions**

Disbursement Approval

While reading the minutes for the Township, noted that there were several check numbers missing from the sequence of checks that are approved each month for bill payment that were voided checks. The township should take careful measures to ensure that all approved disbursements; including check number, vendor, name, and amount, are noted in the minutes including those that have been voided, as an additional control feature and so such authentication can be performed.

Property Tax Disbursements Made to the Township

It was also noted that the Township made only one transfer at year end from the tax account to the general fund for the Township's share of Property Taxes. We recommend that amounts be disbursed in a timely manner upon receipt regardless of the entity to which they are being disbursed.

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**COMMENTS AND RECOMMENDATIONS REGARDING INTERNAL CONTROLS/COMPLIANCE/  
EFFICIENCY (CONTINUED)**

**Other Reportable Conditions (Continued)**

Expenditures in Excess of Appropriations

During testing of Fixed Assets it was noted that new voting equipment was donated to the township through a grant from the state of Michigan. Although the township reports under the cash basis of accounting certain non-cash transactions are still required to be reported on the face of the statements. Therefore a revenue and expenditure was recorded for the donation causing the elections expenditure to go over budget. It is recommended that budget amendments are made to adjust for such transactions.

Financial Oversight

The general limitations in a smaller government require that the Township Board Members continue to remain involved in the financial affairs of the Township through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. This comment is intended to emphasize the importance of this oversight and to remind the board of its continued obligation to perform accordingly.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied to our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated September 1, 2006.

**SUMMARY**

We would like to thank the Township personnel and Officials for the cooperation we received from them throughout the course of the audit. We welcome any questions you may have regarding the foregoing comments, and we would be happy to discuss any questions that you might have at your convenience.

This communication is intended for the information of the members of the Township Board, management, and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties.

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